

Memorandum

To: Panel Members Date: September 26, 2001

From: Ron Tagami, Manager
Peter DeMauro, General Counsel File: flowserve2100.130agr

Subject: One Step Agreement for **Flowserve Corporation**
(www.flowserve.com)

CONTRACTOR:

- Training Project Profile: Retraining: companies w/out-of-state competition
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Manufacturing
- Repeat Contractor: Yes
- Contractor's Full Time Employees:
 - Company Wide: 10,000
 - In California: 575
- Fringe Benefits: Yes
- Union Representation: Yes
- Name and Local Number of Union representing workers to be Trained: United Steel Workers of America-Local 4997

CONTRACT:

- Program Costs: \$325,872
- Substantial Contribution: \$0
- Total ETP Funding: \$325,872
- In-Kind Contribution: \$1,014,000
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Los Angeles
- Duration of Agreement: 24 months

TRAINING PLAN:

- Average Cost Trainee: New Hire: \$0 Retrainee: \$1,207
- Type(s) of Training: Continuous Improvement, Management Skills, Computer Skills, Manufacturing Skills
- Number to be retained: New Hire: 0 Retrainee: 270
- Range of hours: 52-180
- Range of hourly wages: \$12.46 to \$53.80
- Prevalent hourly wage: \$23.05
- Weighted average hourly wage: \$25.21
- Health benefits used to meet ETP minimum wage: No

SUBCONTRACTORS:

California Training Cooperative – Irvine, California, \$439,105 (\$400,000 for provision of training and \$39,105 for provision of project administrative services).

THIRD PARTY SERVICES:

California Training Cooperative assisted in the development of the application for a flat fee of \$33,600.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET9-0956	Vernon	6/30/99-6/29/01	\$137,390	\$15,855	38%*

*The Contractor states the delay in the company's acquisition of Ingersoll/Dresser Pumps hindered the success of this project. The agreement shown above included 80 workers from Ingersoll/Dresser Pumps in the number to be trained. The sale did not close until August, 2000 which did not allow enough time for the workers to be relocated, assimilated, and trained prior to the end term of the agreement.

NARRATIVE:

Flowserve Corporation was approved eligible for funding under Title 22, California Code of Regulations, Section 4416(b), Out-of-State Competition because it is a manufacturer.

Headquartered in Dallas, Texas, Flowserve Corporation is the world's premier provider of industrial flow management products and services. Flowserve produces heavy-duty engineered pumps, precision mechanical seals, automated and manual quarter turn valves, control valves and actuators, and also provides a range of related flow management services, primarily for the petroleum and power markets. These include fluid process industries such as petroleum, chemical, water treatment, water distribution, and power plant systems. The company is comprised of pump, flow control and flow solutions divisions. There are 575 Californians working at the four California-based facilities located in Dominguez Hills, LaHabra, Benecia, and Vernon. This project will retrain 270 workers from pump division located in Vernon.

In August 2000, Flowserve acquired Ingersoll-Dresser Pump Company (IDP) which doubled its size making its pump division the largest engineer pump manufacturer in the world in the petroleum, chemical, and power arena. The revenue produced as a result of this acquisition at the Vernon plant alone represents 20 percent of the total revenue of all the company's pump divisions. The acquisition has also placed Flowserve into a state of transistion. Performance has become the pivotal factor in the success or failure of Flowserve's pump divisions.

One of the major challenges facing Flowserve is to be able to align new and old workforces by establishing the competencies within job-specific performances, learning to work in teams, improving processes, and cross training of workers involved in processes and products. Additional challenges are the steep learning curve for new products and processes and the struggle of assimilating two distinct work cultures. At this time, both of these issues are now impeding planned production rates and the time it takes to ship products.

To this end, Flowserve must retrain 270 current workers as part of its commitment to developing a cohesive work force with the skills to meet the company goals of focusing on new product development, improving customer satisfaction, product quality, and on-time delivery; reducing inventory; and increasing profits.

Project administrative duties will be shared by the Contractor and California Training Cooperative.

The United Steel Workers of America, Local 4997 has provided a letter which shows concurrence with the training described in this Agreement.

SUPPLEMENTAL NATURE OF TRAINING

Currently, Flowserve provides its workers with classroom training in government-mandated safety measures, new hire employee orientation, quality manual procedures training, product training, and some limited resource management software and enterprise resource planning training. The focus of this project will be to train current staff to become more efficient and effective in work processes, shorten production times, and lower costs. Training of this nature has not been previously delivered to the same workers.

Following needs assessments, Flowserve has determined that management staff, production workers, administrative staff, financial staff, software support staff, engineering staff, and purchasing staff will be retrained in one or more of the following: Continuous Improvement to implement lean processing techniques, improve quality, eliminate variation, ensure standard work, cross train, and to develop a

NARRATIVE: (Continued)

process maturity model; Management Skills to gain the expertise to align forces, manage change, build a culture focused on the customer; Manufacturing Skills to improve job-specific technical expertise relative to product lines such as geometric tolerancing, material logistics, AutoCAD, and orbital welding; and Computer Skills to fully utilize Manufacturing Resource Planning and American Product and Inventory Control Society software.

A beneficial by-product of this training program in the future will be the opportunity for Flowserve to cultivate its own experts instead of recruiting outside experts to provide the training.

Flowserve plans to create an environment of continuous training during the 24-month period following the completion of the ETP-funded training in one or more of the following areas: industry orientation, on-the-job training and cross training, quality training, and safety training. The projected costs for this training is \$140,000 per year.

IN-KIND CONTRIBUTION

Flowserve is contributing \$1,014,000 towards project costs which include \$565,000 in wages and benefits paid to workers while in training and \$449,000 in training related costs of project development, training assessment fees, material costs and training of non-funded workers.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement if funding is available and the project meets the Panel priorities. This recommendation is based on Flowserve's stated need to provide its workers with skills to remain competitive, to ensure a continuing relationship with its customers, and to remain viable in the California economy.

Training Data									(c) Payment Schedule				
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Job #	Occupations	Type of Training	No. Retain	(a) Cls/Lab Hours	CBT Hours	(b) SOST Hours	Cost Per Trainee	Total SOST Trainer Hrs.	Hrs. to Enroll/ Pay 1 Enroll	Pay 2 Compl	Pay 3 Hired	Pay 4 After 90 Days	(d) Wage After Retention
1	Management Staff,Production Worker,Engineering Staff,Financial Staff, Purchasing Staff	Direct-Employer, Retraitees	19	160		20	\$2,240	38	8	\$ 560.00	\$1,120.00	\$ - \$ 560.00	\$14.19-53.80/hr
687		Trainees will receive one or more of the following: Management Skills Continuous Improvement Computer Skills Manufacturing Skills		160		20		38					
2	Production Worker,Engineering Staff,Purchasing Staff	Direct-Employer, Retraitees	41	120		20	\$1,720	82	8	\$ 430.00	\$ 860.00	\$ - \$ 430.00	\$15.85-48.42/hr
687		Trainees will receive one or more of the following: Management Skills Continuous Improvement Computer Skills Manufacturing Skills		120		20		82					

(a)Advanced Technology must be provided as class/lab.

(b)Figures for calculation purpose only.

(c)For Welfare to Work: Pay 2=50% Completion hrs. Pay 3=100% Completion hrs.

(d)Wages by occupation on Comment Page.

Training Data									(c) Payment Schedule					
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Job #	Occupations	Type of Training	No. Retain	(a) Cls/Lab Hours	CBT Hours	(b) SOST Hours	Cost Per Trainee	Total SOST Trainer Hrs.	Hrs. to Enroll/ Pay 1 Enroll	Pay 2 Compl	Pay 3 Hired	Pay 4 After 90 Days	(d) Wage After Retention	
3	Production Worker, Engineering Staff, Financial Staff, Management Staff, Administrative Staff	Direct-Employer, Retrainees	48	100		20	\$1,460	96	8	\$ 365.00	\$ 730.00	\$ -	\$ 365.00	\$12.46-53.80/hr
687		Trainees will receive one or more of the following: Management Skills Continuous Improvement Computer Skills Manufacturing Skills		100		20		96						
4	Production Worker, Engineering Staff, Financial Staff, Management Staff, Administrative Staff	Direct-Employer, Retrainees	38	80		20	\$1,200	76	8	\$ 300.00	\$ 600.00	\$ -	\$ 300.00	\$12.46-53.80/hr
687		Trainees will receive one or more of the following: Management Skills Continuous Improvement Computer Skills Manufacturing Skills		80		20		76						

(a)Advanced Technology must be provided as class/lab.

(b)Figures for calculation purpose only.

(c)For Welfare to Work: Pay 2=50% Completion hrs. Pay 3=100% Completion hrs.

(d)Wages by occupation on Comment Page.

Training Data									(c) Payment Schedule				
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Job #	Occupations	Type of Training	No. Retain	(a) Cls/Lab Hours	CBT Hours	(b) SOST Hours	Cost Per Trainee	Total SOST Trainer Hrs.	Hrs. to Enroll/ Pay 1 Enroll	Pay 2 Compl	Pay 3 Hired	Pay 4 After 90 Days	(d) Wage After Retention
5	Administrative Staff, Purchasing Staff, Software Support Staff, Management Staff, Engineering Staff, Financial Staff	Direct-Employer, Retrainees	64	60		20	\$940	128	8	\$ 235.00	\$ 470.00	\$ - \$ 235.00	\$12.46- 53.80
687		Trainees will receive one or more of the following: Management Skills Continuous Improvement Computer Skills Manufacturing Skills		60		20		128					
6	Administrative Staff,Purchasing Staff,Software Support Staff,Management Staff,Engineering Staff, Production Worker,Financial Staff	Direct-Employer, Retrainees	23	40		20	\$680	46	8	\$ 170.00	\$ 340.00	\$ - \$ 170.00	\$12.46- 53.80/hr
687		Trainees will receive one or more of the following: Management Skills Continuous Improvement Computer Skills Manufacturing Skills		40		20		46					

(a)Advanced Technology must be provided as class/lab.

(b)Figures for calculation purpose only.

(c)For Welfare to Work: Pay 2=50% Completion hrs. Pay 3=100% Completion hrs.

(d)Wages by occupation on Comment Page.

Training Data									(c) Payment Schedule				
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Job #	Occupations	Type of Training	No. Retain	(a) Cls/Lab Hours	CBT Hours	(b) SOST Hours	Cost Per Trainee	Total SOST Trainer Hrs.	Hrs. to Enroll/ Pay 1 Enroll	Pay 2 Compl	Pay 3 Hired	Pay 4 After 90 Days	(d) Wage After Retention

7	Management Staff,Purchasing Staff, Production Worker	Direct-Employer, Retrainees	37	32		20	\$576	74	8	\$ 144.00	\$ 288.00	\$ -	\$ 144.00	\$15.85-53.80/hr
687		Trainees will receive one or more of the following: Management Skills Continuous Improvement Computer Skills Manufacturing Skills		32		20		74						

Contract Totals				
Program Cost		\$325,872	Total to be Retained	270
Substantial Contribution (___%)	(-)	\$0		
Multiple-Empl. Support (___%)	(+)	\$0		
TOTAL ETP Funding	(=)	\$325,872		

(a)Advanced Technology must be provided as class/lab.

(b)Figures for calculation purpose only.

(c)For Welfare to Work: Pay 2=50% Completion hrs. Pay 3=100% Completion hrs.

(d)Wages by occupation on Comment Page.

Turnover Rate	% of Mgrs. & Sups. to be trained		Health Benefits Inc. in Wage?		
19.0%	N/A		No		

Location of training: All training will be conducted on company premises in Vernon during work hours.

Ratios: The ratio of trainers to trainees for class/lab training shall not exceed 1:20 for retrainees.

If Health Benefits is "YES", please explain: N/A

Other notes:

(d) Wages by occupation after retention:

<u>Occupations</u>	<u>Wage Range</u>
Management Staff	\$20.57-53.80
Production Worker	\$15.85-35.92
Financial Staff	\$14.19-45.68
Administrative Staff	\$12.46-25.97
Software Support Staff	\$13.61-28.75
Engineering Staff	\$19.90-48.42
Purchasing Staff	\$17.31-35.86